

ANNUAL REPORT

YEAR ENDED JULY 31

1943

FEDERATED

DEPARTMENT STORES, INC.

BOARDS

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MRB
CORP. FILE



R.H. WHITE'S

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Filene's

COLLEGIENNE

BALCONY FOR YOUTH

COMFORTERS



SHILLITO'S



Show all Aprons



THRIFT HOSE



ABRAHAM & STRAUS



PAPER GOODS



LAZARUS



Show all Aprons



Show all Aprons

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Lincoln Filene, *Chairman*

Edward C. Blum *President*
Simon Lazarus *Vice President*
Edward J. Frost *Treasurer*
Jacob J. Kaplan *Secretary*
Hugh Grant Straus *Asst. Sec. and Asst. Treas.*

BOARD OF DIRECTORS

Lincoln Filene, ^{<i>Chairman of Board</i>} ~~<i>President</i>~~ WM. FILENE'S SONS COMPANY	Simon Lazarus, <i>President</i> THE F. AND R. LAZARUS AND COMPANY
Samuel J. Bloomingdale, <i>Chairman</i> BLOOMINGDALE BROS., INC.	Fred Lazarus, Jr., <i>Vice President</i> THE F. AND R. LAZARUS AND COMPANY
Edward C. Blum, <i>Chairman</i> ABRAHAM & STRAUS, INC.	Paul Mazur LEHMAN BROTHERS
Edward J. Frost, ^{<i>President</i>} ~~<i>Vice Pres. and Treas.</i>~~ WM. FILENE'S SONS COMPANY	Walter Rothschild, <i>President</i> ABRAHAM & STRAUS, INC.
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Jacob J. Kaplan, <i>Attorney</i> NUTTER, MCCLENNEN AND FISH	Hugh Grant Straus, <i>Vice President</i> ABRAHAM & STRAUS, INC.

TRANSFER AGENTS

Preferred Stock — J. P. Morgan & Co., Incorporated
Common Stock — Central Hanover Bank & Trust Co.

REGISTRARS

Preferred Stock — Central Hanover Bank & Trust Co.
Common Stock — Commercial National Bank & Trust Co.

SUBSIDIARIES

BLOOMINGDALE BROS., INC.	THE F. AND R. LAZARUS AND COMPANY
WM. FILENE'S SONS COMPANY	SUBSIDIARY
SUBSIDIARY	The John Shillito Company
R. H. White Company	ABRAHAM & STRAUS, INC.

F E D E R A T E D

DEPARTMENT STORES, INC.

1440 Broadway, New York 18, N. Y.

To the Stockholders:

THERE IS submitted herewith a report of the operations of your Company and its subsidiaries for the fiscal year ended July 31, 1943.

In the fiscal year which has just closed the following increases were shown over the prior year:

	Year Ended		Increase
	July 31, 1943	July 31, 1942	
Consolidated net sales	\$155,331,203	\$136,585,703	13.7%
Consolidated net profit before federal excess profits and income taxes and minority interest	12,367,327	8,099,368	52.7
Federal excess profits and income taxes	7,866,388	4,027,650	95.3
Net profit applicable to common stock of your Company after taxes, minority interest and preferred dividends	3,473,745	3,002,280	15.7
Applicable to each share of common stock	3.56	3.15	

This increase in the net earnings applicable to the common stockholders has been attained notwithstanding the fact that the year which has just closed has witnessed a continuance of the dif-

ficulties created by the war economy in the operations of retail stores such as those operated by your subsidiaries including, among other things, inventory control, price ceilings and ration-

ing. As these restrictions and others imposed by the war economy are continued, the difficulties of operation may well become more aggravated. However, your management appreciates the opportunity presented by these difficulties to contribute to the war effort. The services in which the stores of the subsidiaries are engaged are important, not only to the stockholders of your Company but also to civilian morale generally, and adversities must act as a challenge to management for more efficient operation, a challenge which the stores hope to meet effectively.

Your management also has in mind the continuance of successful operations of department stores like those operated by your Company's subsidiaries is of value in meeting inflationary tendencies. If the volume of consumer goods can be increased without interfering with the production of materials or supplies needed for the successful prosecution of the war, and if the stores continue to find ways of distributing merchandise more efficiently, a real contribution will have been made toward curbing inflation, since there is no better way to control inflation than to increase production and to reduce the competition for goods. There is also no sounder way for the

country to enter the post-war era, which will in the opinion of your management be both goods-hungry and job-hungry, than to have the retail stores and their sources of supply already geared to a large and economical manufacturing and distribution effort.

PERSONNEL PROBLEMS

The subsidiaries of Federated Department Stores, Inc. employ a total of from 15,000 to 25,000 people, depending on the season of the year. Up to July 31, 1943 some 3,000 of these employees, men and women, had entered the armed forces. Employee turnover has been further increased because of the strong patriotic and financial appeal of war work. In an effort to maintain the best possible service to the customers of your stores this problem has been met in part by intensifying training programs, employing many persons available for part-time work, substituting women for men in many places and by streamlining operations wherever possible in order to be able to release personnel for the war effort.

Credit for the maintenance of the service of the stores must be given in great part to the thousands of employees who have remained with the stores. They have assumed the added responsibility of assisting the new em-

ployees under difficult conditions and are an important factor in the retention of customers' goodwill, which we consider to be a major asset.

THE SUBSIDIARY COMPANIES

Federated Department Stores, Inc. was incorporated in 1929 under the laws of the State of Delaware, and owns a majority of the capital stock of Abraham & Straus, Inc., Bloomingdale Bros., Inc., Wm. Filene's Sons Company and The F. and R. Lazarus and Company. Wm. Filene's Sons Company, in turn, owns all of the capital stock of the R. H. White Company. The F. and R. Lazarus and Company owns a majority of the capital stock of The John Shillito Company. These subsidiaries operate in the aggregate sixteen stores and branches, principally centered in and about New York City, Boston, Columbus and Cincinnati. In the aggregate they constitute one of the largest distributing units in the country.

ABRAHAM & STRAUS, INC.
Brooklyn, New York

The business now conducted by Abraham & Straus, Inc. was originally established in 1865. The main store of Abraham & Straus, Inc. is located in Brooklyn, New York, and covers prac-

tically a whole city block. Abraham & Straus, Inc. is, in volume of sales, the largest department store in Brooklyn, which is in turn the most populous borough of New York City.

Abraham & Straus, Inc. did a volume of \$31,157,476 in sales in the year ended July 31, 1943. Federated Department Stores, Inc. owns 100% of the preferred stock and 89.10% of the common stock of this store.

BLOOMINGDALE BROS., INC.
New York City

The business now conducted by Bloomingdale Bros., Inc. was originally established in 1872. It occupies the entire block bounded by Lexington and Third Avenues, and 59th and 60th Streets. It has been for a number of years one of the three largest stores in New York City in point of volume of sales.

Bloomingdale Bros., Inc. did a volume of \$32,174,476 in sales in the year ended July 31, 1943. Federated Department Stores, Inc. owns 100% of the preferred stock and 87.37% of the common stock of Bloomingdale Bros., Inc.

Abraham & Straus, Inc. and Bloomingdale Bros., Inc. together own Frequency Modulation Station W75NY and Television Experiment Station W2XMT.

WM. FILENE'S SONS COMPANY
Boston, Mass.

The business conducted by Wm. Filene's Sons Company was originally established in 1856. Wm. Filene's Sons Company's main store occupies an entire block in the centre of the downtown district of Boston. This store is primarily devoted to the sale of clothing and accessories for men, women and children. While it deals in other commodities to some extent, it is not a department store. It has often been referred to as the world's largest specialty store. It maintains branches at a number of points in Massachusetts, and also in Portland, Maine.

Wm. Filene's Sons Company owns all of the capital stock of the R. H. White Company. The business now conducted by the R. H. White Company was founded in 1858. The present R. H. White Company operates a department store on Washington Street in Boston — one of the principal shopping districts in that city.

Wm. Filene's Sons Company and its subsidiary did a combined volume of \$50,392,704 in sales in the year ended July 31, 1943. Federated Department Stores, Inc. owns 67.46% of the preferred stock and 68.65% of the common stock of Wm. Filene's Sons Company.

THE F. AND R. LAZARUS AND COMPANY
Columbus, Ohio

The business now conducted by The F. and R. Lazarus and Company was founded in 1851. The present company occupies two city blocks in Columbus and is the largest department store, both in size and point of sales, in Columbus.

The F. and R. Lazarus and Company owns 78.37% of the preferred stock and 99.28% of the common stock of The John Shillito Company. The business now conducted by The John Shillito Company was founded in 1830 and is reputed to be the oldest department store west of the Alleghenies. The department store operated by The John Shillito Company occupies substantially a city block in Cincinnati, Ohio and has for many years been the largest department store in point of volume of sales in the City of Cincinnati.

The F. and R. Lazarus and Company and its subsidiary did a combined volume of \$41,606,547 in sales in the year ended July 31, 1943. Federated Department Stores, Inc. owns 100% of the preferred stock and 98.94% of the common stock of The F. and R. Lazarus and Company.

SUMMARY OF FINANCIAL RESULTS

Some reference has already been made in the earlier portions of this report to the operations of your Company during the year ended July 31, 1943. A detailed statement of those operations appears in the Financial Statements in the latter portion of this report and your close study of these figures is invited. Attention may be called to some of the more important figures which thus appear.

NET SALES

The net sales of the subsidiaries of your Company increased 13.7% in the year ended July 31, 1943. The total sales for that period were \$155,331,203 compared with \$136,585,703 for the year ended July 31, 1942.

NET PROFIT

Your Company improved its con-

solidated net profit, before provision for Federal Taxes on income, 52.7%. This is calculated according to the Lifo method of inventory valuation explained in Note 1 to the Financial Statements. For the year ended July 31, 1943 net profits before Federal Taxes on income were \$12,367,327 compared with \$8,099,368 for the year ended July 31, 1942.

FEDERAL TAXES

Provision for Federal Taxes has necessarily increased, being \$7,866,388 for the year ended July 31, 1943 compared with \$4,027,650 for the year ended July 31, 1942. This represents an increase of 95.3%.

WORKING CAPITAL

A comparison of working capital and of long-term debt at July 31, 1943 and at the end of the preceding four fiscal periods is as follows:

	Amount of working capital	Ratio of current assets to current liabilities	Amount of long-term debt
July 31, 1943	\$33,270,318	5.26	\$12,789,897
July 31, 1942	38,358,609	5.40	20,414,016
January 31, 1942	29,413,127	4.10	10,980,183
January 31, 1941	28,292,487	5.77	10,295,413
January 31, 1940	26,054,743	5.76	9,583,360

The amount of the working capital decreased slightly over \$5,000,000 during the year ended July 31, 1943 and this was accompanied by a reduction of somewhat over \$7,500,000 in long-term debt. As inventories were reduced during the year, the long-term debt, which had been increased to carry these inventories, was reduced. At July 31, 1943 current assets were \$41,086,807 and current liabilities were \$7,816,489, a ratio of 5.26 to 1. At July 31, 1943 cash amounted to \$9,708,403 and United States Government securities were \$9,270,998; of these securities \$5,735,082 were applied in the balance sheet against the liability for federal taxes on income.

NET PROFITS APPLICABLE TO SHARES OF THE PARENT COMPANY

Consolidated net profits applicable to shares of the parent company calculated on the Lifo basis, after taxes and minority interest, were \$3,900,480 for the year ended July 31, 1943 as compared with \$3,444,930 for the year ended July 31, 1942. After deducting dividends on the preferred stock of the Company, the consolidated net profits applicable to the common stock of the

Company were \$3,473,745 for the year ended July 31, 1943 as compared with \$3,002,280 for the year ended July 31, 1942. This is equivalent to \$3.56 per share on the outstanding common stock of Federated Department Stores, Inc. for the year ended July 31, 1943 as against \$3.15 per share for the year ended July 31, 1942.

Federated Department Stores, Inc. and its subsidiary companies have continued the use of the Lifo method adopted commencing the year ended January 31, 1942. The effect of the use of this method is explained in Note 1 to the accompanying Financial Statements.

DIVIDEND PAYMENTS

Regular quarterly dividends were paid upon the 4½% cumulative preferred stock of your stores during the year ended July 31, 1943. Dividends on the common stock paid during the fiscal year just ended were \$1.50 per share, the same amount as that paid during the twelve months ended July 31, 1942.

The following table shows the dividend payments made during the past four and one-half years, together with the number of shares of common and preferred stock outstanding at the end of each period:

	Amounts of dividends			Shares outstanding at end of each period	
	Total	Preferred stock	Common stock	Preferred stock	Common stock
Year ended July 31, 1943	\$1,865,446	\$426,735	\$1,438,711	97,810	974,621
Six months ended July 31, 1942	885,548	219,200	666,348	102,750	951,927
Year ended January 31: 1942	1,872,328	451,150	1,421,178	104,950	951,587
1941	1,869,575	470,170	1,399,405	109,350	937,293
1940	1,636,998	486,427	1,150,571	112,250	920,898

In closing this report the Directors reiterate their appreciation of the loyal services of the employees of the stores

who have contributed so much to the results set forth in this report.

Respectfully submitted,

LINCOLN FILENE
CHAIRMAN

By order of the Board of Directors
November 3, 1943

TOUCHE, NIVEN & CO.
CERTIFIED PUBLIC ACCOUNTANTS
EIGHTY MAIDEN LANE
NEW YORK

October 26, 1943

TO THE BOARD OF DIRECTORS
OF FEDERATED DEPARTMENT STORES, INC.:

We have examined the balance sheets as of July 31, 1943 and the related statements of profit and loss and surplus for the year then ended of Federated Department Stores, Inc. and of certain of its subsidiary companies — Abraham & Straus, Inc., Bloomingdale Bros., Inc. and its subsidiary company, Federated Service, Inc. and Metropolitan Television, Inc. — have reviewed the systems of internal control and the accounting procedures of the companies and, without making a detailed audit of the transactions, have examined or tested accounting records of the companies and other supporting evidence by methods and to the extent we deemed appropriate. Our examination was made in accordance with generally accepted auditing standards applicable in the circumstances and included all procedures which we considered necessary. Messrs. Herbert F. French & Company and Messrs. Ernst & Ernst have made similar examinations of the consolidated financial statements for the same period of Wm. Filene's Sons Company and The F. and R. Lazarus and Company, respectively, the two other subsidiary companies of Federated Department Stores, Inc., the net assets of which represent approximately 53% of the consolidated net assets at July 31, 1943. From the foregoing financial statements there have been prepared the accompanying consolidated balance sheet of Federated Department Stores, Inc. and subsidiary companies as at July 31, 1943 and the consolidated statements of profit and loss and surplus for the fiscal year then ended.

Based upon the examinations made by us and upon the opinions expressed in the reports of the other accountants with respect to the financial statements of subsidiary companies not examined by us, the figures for which have been included upon the responsibility of such accountants, the accompanying consolidated balance sheet and related consolidated statements of profit and loss and surplus, in our opinion, present fairly the consolidated position of Federated Department Stores, Inc. and subsidiary companies at July 31, 1943, and the consolidated results of their operations for the year then ended in conformity with generally accepted accounting principles. Such principles have been applied by each of the companies on bases consistent with those of the preceding period except for the change, which we approve, in the deduction from profits with respect to warrants referred to in Note 10 to the financial statements.

TOUCHE, NIVEN & CO.

FEDERATED DEPARTMENT

[A DELAWARE CORPORATION]

AND SUBSIDIARIES

COMPARATIVE CONSOLIDATED BALANCE SHEET

ASSETS	JULY 31, 1943	JULY 31, 1942
CURRENT ASSETS:		
Cash on demand deposit and on hand	\$ 9,708,403	\$ 9,331,065
United States Government securities	3,535,916	3,700
Customers' accounts and notes receivable:		
Regular retail, less reserves of \$242,949 at July 31, 1943 and \$226,350 at July 31, 1942	6,392,112	5,342,206
Instalment, less reserves of \$283,393 at July 31, 1943 and \$477,384 at July 31, 1942	2,585,455	4,207,081
Merchandise inventories on hand and in transit (See Note 1)	18,224,402	27,680,764
Sundry debtors	640,519	518,971
	<u>\$41,086,807</u>	<u>\$47,083,787</u>
OTHER ASSETS:		
Notes secured by second mortgages on property used in operations — at cost to subsidiary company	\$ 1,261,000	\$ 1,211,000
Real estate not used in operations (See Note 3)	769,734	881,812
Federal taxes on income for which claims for refund are to be filed (See Note 1)	514,130	—
Loans to director and employees of a subsidiary company, less reserve	184,580	246,745
Miscellaneous investments, advances and deposits — joint merchandising and service organizations, reciprocal and mutual insurance companies and others — at cost or less to subsidiary companies	658,298	276,160
	<u>\$ 3,387,742</u>	<u>\$ 2,615,717</u>
FIXED ASSETS (See Note 3):		
Land, buildings, and building equipment substantially all on owned land:		
Land	\$ 6,763,509	\$ 6,758,189
Buildings and building equipment	5,836,506	5,883,480
Buildings and building equipment on leased land, improvements to leased properties and leasehold	8,354,108	8,941,188
Store fixtures and equipment	3,407,979	3,709,273
	<u>\$24,362,102</u>	<u>\$25,292,130</u>
DEFERRED CHARGES:		
Supplies	\$ 626,691	\$ 757,824
Prepaid insurance, taxes, etc.	994,601	1,025,817
Organization expenses, etc. of one subsidiary company	9,015	11,654
Unamortized debt expense	87,567	122,418
	<u>\$ 1,717,874</u>	<u>\$ 1,917,713</u>
GOODWILL — at nominal amount	<u>\$ 4</u>	<u>\$ 4</u>

\$70,554,529 \$76,909,351

MENT STORES, INC.

CORPORATION]

RY COMPANIES

DATED BALANCE SHEET

LIABILITIES		JULY 31, 1943	JULY 31, 1942
CURRENT LIABILITIES:			
Notes payable — banks		\$ —	\$ 500,000
Accounts payable — trade		4,219,728	4,191,763
Accrued liabilities:			
Salaries and wages		663,568	338,761
Federal taxes on income (See Note 1), less United States Treasury savings notes of \$5,735,082 at July 31, 1943 and \$200,480 at July 31, 1942		1,163,427	1,955,743
Other taxes		660,077	720,237
Miscellaneous		291,454	309,072
Long-term indebtedness due within one year		334,734	389,422
Sundry creditors		483,501	320,180
		<u>\$ 7,816,489</u>	<u>\$ 8,725,178</u>
LONG-TERM DEBT OF SUBSIDIARY COMPANIES:			
Mortgages payable, due after one year to 1964		\$ 6,339,897	\$ 7,181,016
Notes and debenture bonds payable, due after one year to 1951		6,450,000	13,233,000
		<u>\$12,789,897</u>	<u>\$20,414,016</u>
RESERVES:			
For possible assessment of taxes		\$ 630,900	\$ 606,753
For contingencies		455,000	200,000
For warrants (See Note 10)		171,014	355,250
		<u>\$ 1,256,914</u>	<u>\$ 1,162,003</u>
MINORITY INTERESTS IN CAPITAL STOCK AND SURPLUS OF SUBSIDIARY COMPANIES:			
Preferred stocks owned by other interests — at par value of \$100 a share (See Note 5)		\$ 1,871,900	\$ 1,871,900
Common stocks owned by other interests		2,197,680	2,253,694
Surplus applicable thereto		2,959,983	2,845,648
		<u>\$ 7,029,563</u>	<u>\$ 6,971,242</u>
CAPITAL STOCK AND SURPLUS:			
Capital stock:			
Preferred, 4% cumulative, par value \$100 per share, maximum redemption price \$106 per share — convertible into common stock on the basis described in Note 6:			
Authorized, 160,000 shares			
Issued, 125,000 shares, of which 1,550 shares have been converted into common shares		<u>\$12,345,000</u>	<u>\$12,345,000</u>
Less:			
Repurchased and retired, 10,700 shares at July 31, 1943 and 9,000 shares at July 31, 1942		\$ 1,070,000	\$ 900,000
Other shares repurchased, 14,940 shares at July 31, 1943 and 11,700 shares at July 31, 1942		1,494,000	1,170,000
		<u>\$ 2,564,000</u>	<u>\$ 2,070,000</u>
Outstanding, 97,810 shares at July 31, 1943 and 102,750 shares at July 31, 1942 (See Note 7)		\$ 9,781,000	\$10,275,000
Capital arising from conversion of 1,550 preferred shares into common shares		116,250	116,250
Common:			
Authorized, 2,000,000 shares without par value (See Note 8)			
Issued and outstanding — 974,621.5 shares at July 31, 1943 and 951,927.3 shares at July 31, 1942, at \$10 per share fixed by Board of Directors		9,746,215	9,519,273
Surplus:			
Paid-in surplus		11,235,707	11,014,986
Earned surplus (See Note 9)		10,782,494	8,711,403
		<u>\$41,661,666</u>	<u>\$39,636,912</u>
		<u>\$70,554,529</u>	<u>\$76,909,351</u>

FEDERATED DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES
COMPARATIVE CONSOLIDATED PROFIT AND LOSS

	<u>YEAR ENDED JULY 31,</u>	
	<u>1943</u>	<u>1942</u>
NET SALES (including sales of leased departments)	\$155,331,203	\$136,585,703
COST OF GOODS SOLD (See Note 1) and expenses, exclusive of items listed below...	<u>139,649,105</u>	<u>124,854,533</u>
	<u>\$ 15,682,098</u>	<u>\$ 11,731,170</u>
DEDUCT:		
Depreciation (See Note 4)	\$ 1,683,873	\$ 1,608,540
Maintenance and repairs	958,928	1,374,285
Interest on indebtedness and amortization of debt expense (See Note 2)	<u>618,308</u>	<u>471,655</u>
	<u>\$ 3,261,109</u>	<u>\$ 3,454,480</u>
	<u>\$ 12,420,989</u>	<u>\$ 8,276,690</u>
OTHER DEDUCTIONS — NET:		
Provision for warrants to be issued subsequent to the end of each of the years to executives of subsidiary companies (See Note 10)	\$ 60,000	\$ 145,375
Adjustment of provision for warrants made during the previous year	438*	105,625
Loss from sale of real estate and securities	61,385	4,064*
Settlement of claim under lease	50,000	59,500
Provision for employees' notes	45,000	—
Refund (net) of taxes applicable to prior years	140,967*	127,213*
Miscellaneous income — net	<u>21,318*</u>	<u>1,901*</u>
	<u>\$ 53,662</u>	<u>\$ 177,322</u>
NET PROFIT BEFORE PROVISION FOR FEDERAL TAXES ON INCOME	<u>\$ 12,367,327</u>	<u>\$ 8,099,368</u>
PROVISION FOR FEDERAL TAXES ON INCOME:		
Normal and surtax	\$ 2,162,338	\$ 2,280,800
Excess profits tax	<u>5,704,050</u>	<u>1,746,850</u>
	<u>\$ 7,866,388</u>	<u>\$ 4,027,650</u>
NET PROFIT	<u>\$ 4,500,939</u>	<u>\$ 4,071,718</u>
DEDUCT:		
Dividends on preferred stocks of subsidiary companies owned by other interests	\$ 90,436	\$ 90,203
Portion of net profit applicable to minority interests in common stocks of subsidiary companies	<u>510,023</u>	<u>536,585</u>
	<u>\$ 600,459</u>	<u>\$ 626,788</u>
NET PROFIT APPLICABLE TO SHARES OF PARENT COMPANY (See Notes 1 and 11)	<u>\$ 3,900,480</u>	<u>\$ 3,444,930</u>

*Contra.

FEDERATED DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES
COMPARATIVE CONSOLIDATED SURPLUS

	<u>YEAR ENDED JULY 31,</u>	
	<u>1943</u>	<u>1942</u>
PAID-IN SURPLUS:		
Balance, beginning of period.....	\$11,014,986	\$10,810,250
Add:		
Discount on repurchase of parent company 4½% convertible preferred stock.....	53,031	57,023
Excess of book value of assets, represented by capital stock of minority interests acquired, over stated value of parent company's common stock issued in exchange therefor or cash paid:		
Parent company	88,128	147,252
Subsidiary company — parent company's proportion.....	409	461
Credit with respect to warrants exercised and converted during the year (See Note 10)	79,153	—
Balance, end of period.....	<u>\$11,235,707</u>	<u>\$11,014,986</u>
EARNED SURPLUS:		
Balance, beginning of period.....	\$ 8,711,403	\$ 7,149,101
Add:		
Net profit for year (See Notes 1 and 11)	3,900,480	3,444,930
Credit as a result of the retroactive change in accounting procedure with respect to warrants (See Note 10)	211,125	—
Adjustments by subsidiary companies as of February 1, 1941 as a result of the adoption of a uniform basis of certain reserves — parent company's proportion. . . .	—	100,650
	<u>\$12,823,008</u>	<u>\$10,694,681</u>
Deduct:		
Dividends on:		
4½% convertible preferred stock — quarterly dividends of \$1.0625 each.....	\$ 426,735	\$ 442,650
Common stock — \$1.50 per share.....	1,438,711	1,426,193
Increase by a subsidiary company of its reserve for contingencies from \$50,000 as of July 31, 1941 to \$200,000 as of July 31, 1942 and to \$455,000 as of July 31, 1943 — parent company's proportion.....	175,068	102,981
Unamortized moving expense capitalized in prior year written off — parent company's proportion	—	11,454
	<u>\$ 2,040,514</u>	<u>\$ 1,983,278</u>
Balance, end of period (See Note 9)	<u>\$10,782,494</u>	<u>\$ 8,711,403</u>
TOTAL SURPLUS	<u><u>\$22,018,201</u></u>	<u><u>\$19,726,389</u></u>

FEDERATED DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

NOTES TO FINANCIAL STATEMENTS

1. As explained in the report for the year ended January 31, 1942, the last-in first-out (Lifo) method of inventory valuation, by the use of an index of retail price changes, was adopted in the preparation of the report for that year. This method has been continued for subsequent periods. The effect upon the net profit has been as follows:

	Total	Year ended July 31, 1943	Six months ended July 31, 1942	Year ended January 31, 1942
Reduction of merchandise inventories with an approximately corresponding reduction of net profit before provision for federal taxes on income.....	\$2,347,942	\$96,470	\$435,442	\$1,816,030
Reduction in provision for federal taxes on income	1,722,750	78,050	352,100	1,292,600
Reduction in net profit after federal taxes on income	\$ 625,192	\$18,420	\$ 83,342	\$ 523,430
Portion of reduction in net profit applicable to minority interests in common stocks of subsidiary companies	96,502	2,723	12,069	81,710
Reduction in net profit applicable to common shares of parent company.....	\$ 528,690	\$15,697	\$ 71,273	\$ 441,720

To date, field agents of the Bureau of Internal Revenue have examined the income and excess profits tax returns for the year ended January 31, 1942 of The F. and R. Lazarus and Company, The John Shillito Company, Wm. Filene's Sons Company and R. H. White Company, and in these examinations the agents have disallowed the use of the Lifo method. Payments of additional assessments of \$367,454 claimed to be due from The F. and R. Lazarus and Company and The John Shillito Company, as a result of these disallowances, have been made by these companies subsequent to July 31, 1943, pending the determination of a test case and subject to the filing of appropriate claims for refund of the amounts paid. In the case of Wm. Filene's Sons Company and R. H. White Company, agreements to pay the additional assessments proposed have not yet been signed, but \$146,676 of the amounts claimed had been paid at the time of filing tentative returns; in this case, likewise, claims for refund will be filed. Federated Department Stores, Inc. is of the opinion that the disallowance of the use of the Lifo method is not in accordance with the provisions of the Internal Revenue Code and, after hearings are completed in a test case before the Treasury Department, if the decision is adverse to the contention of the subsidiaries, they propose to obtain a judicial determination of the issue. The amounts paid aggregate \$514,130 and this sum is carried as an asset in the accompanying balance sheet for the reason that the increase in inventories, if the use of the Lifo method were ultimately disallowed, would be greater than such amount. If the use of this method is not ultimately approved, the taxable income would be increased by approximately the aforementioned reduction of merchandise inventories (\$2,347,942 in the two and one-half years to which it has been applied) and the federal taxes on income payable would be increased in the amount of \$1,208,620 (\$1,722,750 in the two and one-half years to which it has been applied less the payments made of \$514,130).

A comparison of the net profit for the several periods on the Lifo basis and on the basis formerly employed is as follows:

	Year ended July 31, 1943	Six months ended July 31, 1942	Year ended January 31, 1942
Lifo basis:			
Profit before provision for federal taxes on income..	\$12,367,327	\$2,525,771	\$6,614,201
Provision for federal taxes on income.....	7,866,388	1,493,150	3,004,500
Net income before minority interests.....	\$ 4,500,939	\$1,032,621	\$3,609,701
Minority interests	600,459	164,511	507,806
Net income	<u>\$ 3,900,480</u>	<u>\$ 868,110</u>	<u>\$3,101,895</u>
Basis formerly employed:			
Profit before provision for federal taxes on income..	\$12,463,797	\$2,961,213	\$8,430,231
Provision for federal taxes on income.....	7,944,438	1,845,250	4,297,100
Net income before minority interests.....	\$ 4,519,359	\$1,115,963	\$4,133,131
Minority interests	603,182	176,580	589,516
Net income	<u>\$ 3,916,177</u>	<u>\$ 939,383</u>	<u>\$3,543,615</u>

2. Interest on indebtedness and amortization of debt expense for the year ended July 31, 1943 includes \$94,270 for premium, unamortized debt expense, etc. applicable to bonds and notes redeemed during the year by subsidiary companies.

3. Fixed assets (and real estate not used in operations) are stated as follows:

	Cost	Reserve for depreciation	Write-down (A)	Net
July 31, 1943:				
Land	\$ 6,763,509	\$ —	\$ —	\$ 6,763,509
Building and building equipment substantially all on owned land	9,847,275	3,914,598	96,171	5,836,506
Building and building equipment on leased land, improvements to leased properties and leasehold	15,682,021	5,802,412	1,525,501	8,354,108
Store fixtures and equipment.....	8,473,748	4,147,485	918,284	3,407,979
Total fixed assets.....	<u>\$40,766,553</u>	<u>\$13,864,495</u>	<u>\$2,539,956</u>	<u>\$24,362,102</u>
Real estate not used in operations	<u>\$ 890,680</u>	<u>\$ 120,946</u>	<u>\$ —</u>	<u>\$ 769,734</u>
July 31, 1942:				
Land	\$ 6,796,884	\$ —	\$ 38,695	\$ 6,758,189
Building and building equipment substantially all on owned land	9,561,366	3,581,715	96,171	5,883,480
Building and building equipment on leased land, improvements to leased properties and leasehold	15,782,285	5,315,596	1,525,501	8,941,188
Store fixtures and equipment.....	9,424,031	4,776,502	938,256	3,709,273
Total fixed assets.....	<u>\$41,564,566</u>	<u>\$13,673,813</u>	<u>\$2,598,623</u>	<u>\$25,292,130</u>
Real estate not used in operations	<u>\$ 986,063</u>	<u>\$ 104,251</u>	<u>\$ —</u>	<u>\$ 881,812</u>

(A) Write-down as of January 31, 1933 as to certain of these assets of certain subsidiary companies. In addition to these write-downs, Abraham & Straus, Inc. wrote off leaseholds of \$265,833 as of that date.

4. As of January 31, 1933 certain of the expenditures for fixed assets by certain subsidiary companies were written down (See Note 3 above) and depreciation since that date has been calculated upon the reduced values.

5. The preferred stocks of subsidiary companies owned by other interests at July 31, 1943 consisted of a par value of \$1,356,900 issued by Wm. Filene's Sons Company and a par value of \$515,000 issued by The John Shillito Company. That issued by Wm. Filene's Sons Company is redeemable at a maximum price of \$104.50 per share. That issued by The John Shillito Company had no redemption rights. On December 1, 1942 the articles of incorporation of the Company were amended to permit the exchange, as of January 1, 1943, of that Company's first preferred 5% cumulative stock share for share for first preferred 5% cumulative stock which is redeemable at \$110.00 per share to July 1, 1945, \$107.50 per share to January 1, 1948 and \$105.00 per share thereafter; and 4,557 shares were so exchanged. In December, 1942 nine stockholders objected to making this exchange and under the provisions of the general code of Ohio demanded the Company pay them the fair cash value of the 467 shares of first preferred 5% stock held by them, which value they claimed to be \$133.33 per share. The Company declined to pay such amount but offered to pay \$103.00 per share which offer was refused. On May 12, 1943 a suit (still pending) was filed by the dissenting stockholders asking that the fair market value of such shares be fixed at \$133.33.

6. The 4% convertible preferred stock is convertible at the option of the holder into common stock at any time on or before October 1, 1944 at a conversion price of \$70.00 per share. The number of shares of common stock issuable upon the conversion of one share of 4% convertible preferred stock is determined by dividing \$100.00 by the conversion price. The conversion price is subject to adjustment from time to time in the event of original issues by the Corporation of shares of its common stock which will make the aggregate number issued since the organization of the Corporation in excess of 1,000,000, at a price to the Corporation lower than the conversion price in effect.

7. On or before June 1st of each year, the Corporation is required to expend for the repurchase of its 4% convertible preferred stock the greater of (a) \$140,000 or (b) 3% of the balance of the consolidated net earnings after taxes for the preceding fiscal year remaining after deducting from such net earnings the aggregate amount of dividends accrued on the 4% convertible preferred stock during such fiscal year. The repurchases to July 31, 1943 exceed by \$1,357,945 the requirements to June 1, 1943.

8. Of the 2,000,000 shares of common stock authorized, 161,072 shares are reserved for conversion of the 4% convertible preferred stock (maximum requirement) and 101,209 shares are reserved for the exercise of warrants issued and to be issued to certain executives of subsidiary companies (maximum requirement). In addition 123,162 shares are reserved for exchange for common stock of subsidiary companies.

9. Earned surplus of \$10,782,494 is before an appropriation of \$2,197,945, being the cost of the 4% convertible preferred stock repurchased.

10. During the year ended January 31, 1941, a plan was adopted for issuing warrants to certain executives of the Company's subsidiaries (who do not include any of the persons who were members of the Board of Directors of the Company at the time of the adoption of the plan). The more important provisions are now summarized. The plan provides that for each year, for a period not exceeding five years, there may be issued at the discretion of the Board of Directors a maximum of 25,000 warrants, if consolidated net profit applicable to shares owned by the Company in its subsidiaries for the preceding fiscal year is at least as great as \$2,809,272 (average consolidated net profit applicable to shares owned by the Company in its subsidiaries for the years ended January 31, 1937, 1938 and 1939). Each warrant expires within five years from its issue date and authorizes the holder to purchase one share of common stock of the Company on or before May 1st of the fifth calendar year after the calendar year in which the warrant is originally issued, at a price equivalent to the average closing price or closing bid for the stock for the preceding ten trading days prior to the first day of the calendar month as of which such warrant is originally issued. If not exercised for the purchase of common stock, each warrant is convertible, without payment, into 1/10th of a share of common stock of the Company at any time before it expires but only after two years from its original date of issue.

Prior to July 31, 1942 the 75,000 warrants which had been registered with the Securities and Exchange Commission had been issued. During the year ended July 31, 1943, 50,000 additional warrants, representing the balance of 125,000 warrants authorized by the warrant plan, were registered with a provision for a change in accounting procedure which was to apply not only to the future but also retroactively to the commencement of the warrant plan. Under the revised procedure the deduction from profits is arrived at by multiplying (1) the number of shares to be issued under the conversion rights, by (2) the fair value per share of stock. Under the former procedure, the deduction from profits represented the excess of the sum of (1) the \$10.00 per share fixed by the Board of Directors for the Company's common stock and (2) the capital surplus applicable to each share of common stock, over the purchase price fixed in accordance with the warrant plan. The reserve for warrants issued with respect to the three years ended January 31, 1942 has been adjusted to the revised procedure as of January 31, 1943, resulting in an increase in earned surplus and a reduction in the reserve for warrants of \$211,125.

For the 25,000 warrants which were issued as of May 1, 1943, with respect to the year ended January 31, 1943, the provision has been determined by multiplying (1) the 2,500 shares that may be issued under the conversion rights by (2) the fair value of \$19.825 per share of stock as determined by the Board of Directors, resulting in a provision of \$49,563. Of this amount, \$18,750 was deducted in the six months ended July 31, 1942 and the balance of \$30,813 is deducted in the current year. For the 25,000 warrants that may be issued for the year ending January 31, 1944, the provision has been determined by multiplying (1) the 2,500 shares that may be issued under the conversion rights by (2) the fair value per share of stock which tentatively has been determined to be \$23.00 per share, resulting in a provision of \$57,500 of which one-half or \$28,750 is deducted in the year ended July 31, 1943. If the warrants are issued, the fair value per share is to be determined as of May 1, 1944, their date of issue as provided in the plan, and, if the fair value at that date differs from the \$23.00 per share, an adjustment will be required.

During the year ended July 31, 1943, 4,300 warrants were converted into 430 common shares of the Company without cash payment and 19,491 warrants were exercised for the purchase of the same number of common shares of the Company. Of the reserve of \$8,105 provided with respect to the 4,300 warrants converted, \$4,300 was added to capital stock and \$3,805 to paid-in surplus. The 19,491 warrants exercised consisted of 1,000 at \$18.7125 and 18,491 at \$12.275, giving a total cash consideration received by the Company of \$245,690; of this amount plus the reserve of \$24,568 provided with respect to these warrants, \$194,910 was added to capital stock and \$75,348 to paid-in surplus. The addition to paid-in surplus for warrants converted and exercised aggregated \$79,153.

The reserve for warrants at July 31, 1943 comprises the following:

With respect to	Number of warrants			Amount of reserve
	Issued	To be issued	Out-standing July 31, 1943	
Year ended January 31, 1940.....	25,000	—	21,000	\$ 39,296
Year ended January 31, 1941.....	25,000	—	23,700	45,415
Year ended January 31, 1942.....	25,000	—	6,509	7,990
Year ended January 31, 1943.....	25,000	—	25,000	
Six months ended July 31, 1942.....				18,750
Six months ended January 31, 1943.....				30,813
Year ending January 31, 1944.....	—	25,000	—	
Six months ended July 31, 1943.....				28,750
				<u>\$171,014</u>

11. The figures for the year ended July 31, 1943 have been audited. Those for the year ended July 31, 1942 include audited figures for the six months ended July 31, 1942 and a portion of the audited figures for the year ended January 31, 1942; no audit was made, however, as of July 31, 1941, the interim date required to be used, because of the change in fiscal year, in compiling comparative figures for the year ended July 31, 1942.

FEDERATED DEPARTMENT STORES, INC.

AND SUBSIDIARY COMPANIES

COMPARISON OF NET SALES AND NET PROFITS FOUR AND ONE-HALF YEARS ENDED JULY 31, 1943

	Year ended July 31, 1943	Year ended July 31, 1942 ¹	6 months ended July 31, 1942	YEAR ENDED JANUARY 31,		
				1942	1941	1940
NET SALES:						
Wm. Filene's Sons Com- pany	\$ 50,392,704	\$ 44,310,495	\$19,886,139	\$ 42,367,641	\$ 37,429,598	\$ 37,044,450
Abraham & Straus, Inc....	31,157,476	28,076,012	12,054,137	27,216,445	24,167,486	23,426,485
The F. and R. Lazarus and Company	41,606,547	34,623,405	15,372,505	32,918,614	27,013,038	24,177,887
Bloomington Bros., Inc....	32,174,476	29,575,791	12,740,083	28,925,179	26,047,123	25,465,313
	<u>\$155,331,203</u>	<u>\$136,585,703</u>	<u>\$60,052,864</u>	<u>\$131,427,879</u>	<u>\$114,657,245</u>	<u>\$110,114,135</u>
NET PROFITS²⁻³:						
Before federal taxes on in- come	\$ 12,367,327	\$ 8,099,368	\$ 2,525,771	\$ 6,614,202	\$ 4,994,337	\$ 4,820,796
Federal taxes on income..	7,866,388	4,027,650	1,493,150	3,004,500	1,348,200	941,000
After federal taxes on in- come	<u>\$ 4,500,939</u>	<u>\$ 4,071,718</u>	<u>\$ 1,032,621</u>	<u>\$ 3,609,702</u>	<u>\$ 3,646,137</u>	<u>\$ 3,879,796</u>
Deduct:						
Dividends on preferred stocks of subsidiary companies owned by other interests	\$ 90,436	\$ 90,203	\$ 45,101	\$ 90,712	\$ 92,240	\$ 94,685
Portion of net profit ap- plicable to minority in- terests in common stocks of subsidiary companies	510,023	536,585	119,410	417,094	361,797	498,824
Dividends on preferred stock of parent com- pany	426,735	442,650	219,200	451,150	470,170	486,427
	<u>\$ 1,027,194</u>	<u>\$ 1,069,438</u>	<u>\$ 383,711</u>	<u>\$ 958,956</u>	<u>\$ 924,207</u>	<u>\$ 1,079,936</u>
Balance of net profits avail- able for common stock of parent company	<u>\$ 3,473,745</u>	<u>\$ 3,002,280</u>	<u>\$ 648,910</u>	<u>\$ 2,650,746</u>	<u>\$ 2,721,930</u>	<u>\$ 2,799,860</u>
NUMBER OF SHARES OF COMMON STOCK OUTSTANDING						
	<u>974,621.5</u>	<u>951,927.3</u>	<u>951,927.3</u>	<u>951,587.3</u>	<u>937,292.7</u>	<u>920,898</u>
NET PROFIT PER SHARE						
	<u>\$3.56</u>	<u>\$3.15</u>	<u>\$.68</u>	<u>\$2.79</u>	<u>\$2.90</u>	<u>\$3.04</u>

NOTES:

1. The fiscal year of the Corporation was changed at July 31, 1942 from one ending on January 31 to one ending on July 31. For purposes of comparison, figures are presented in this tabulation for both the fiscal year ended July 31, 1942 and for the fiscal period of six months ended July 31, 1942.
2. The figures for net income have not been modified for surplus adjustments which relate to these years, except for the year ended January 31, 1940 for which year income has been reduced by \$53,937.50 for warrants issued after the close of the year and charged to surplus.
3. See Note 1 to the financial statements.

FEDERATED DEPARTMENT STORES, INC.
AND SUBSIDIARY COMPANIES

COMPARATIVE BALANCE SHEET STATISTICS

	END OF FISCAL PERIOD				
	July 31,		January 31,		
	1943	1942	1942	1941	1940
WORKING CAPITAL:					
Current assets:					
Cash and investments	\$13,244,319	\$ 9,334,765	\$ 4,852,711	\$ 4,974,185	\$ 4,409,112
Notes and accounts receivable	8,977,567	9,549,287	17,284,143	16,166,839	14,983,367
Merchandise inventories	18,224,402 ¹	27,680,764 ¹	16,330,512 ¹	12,744,238	11,896,669
Other current assets	640,519	518,971	442,356	335,421	239,841
	<u>\$41,086,807</u>	<u>\$47,083,787</u>	<u>\$38,909,722</u>	<u>\$34,220,683</u>	<u>\$31,528,989</u>
Current liabilities	7,816,489	8,725,178	9,496,595	5,928,196	5,474,246
Working capital	<u>\$33,270,318</u>	<u>\$38,358,609</u>	<u>\$29,413,127</u>	<u>\$28,292,487</u>	<u>\$26,054,743</u>
Ratio of current assets to current liabilities	<u>5.26</u>	<u>5.40</u>	<u>4.10</u>	<u>5.77</u>	<u>5.76</u>
LONG-TERM DEBT OF SUBSIDIARY COMPANIES²	<u>\$12,789,897</u>	<u>\$20,414,016</u>	<u>\$10,980,183</u>	<u>\$10,295,413</u>	<u>\$ 9,583,360</u>

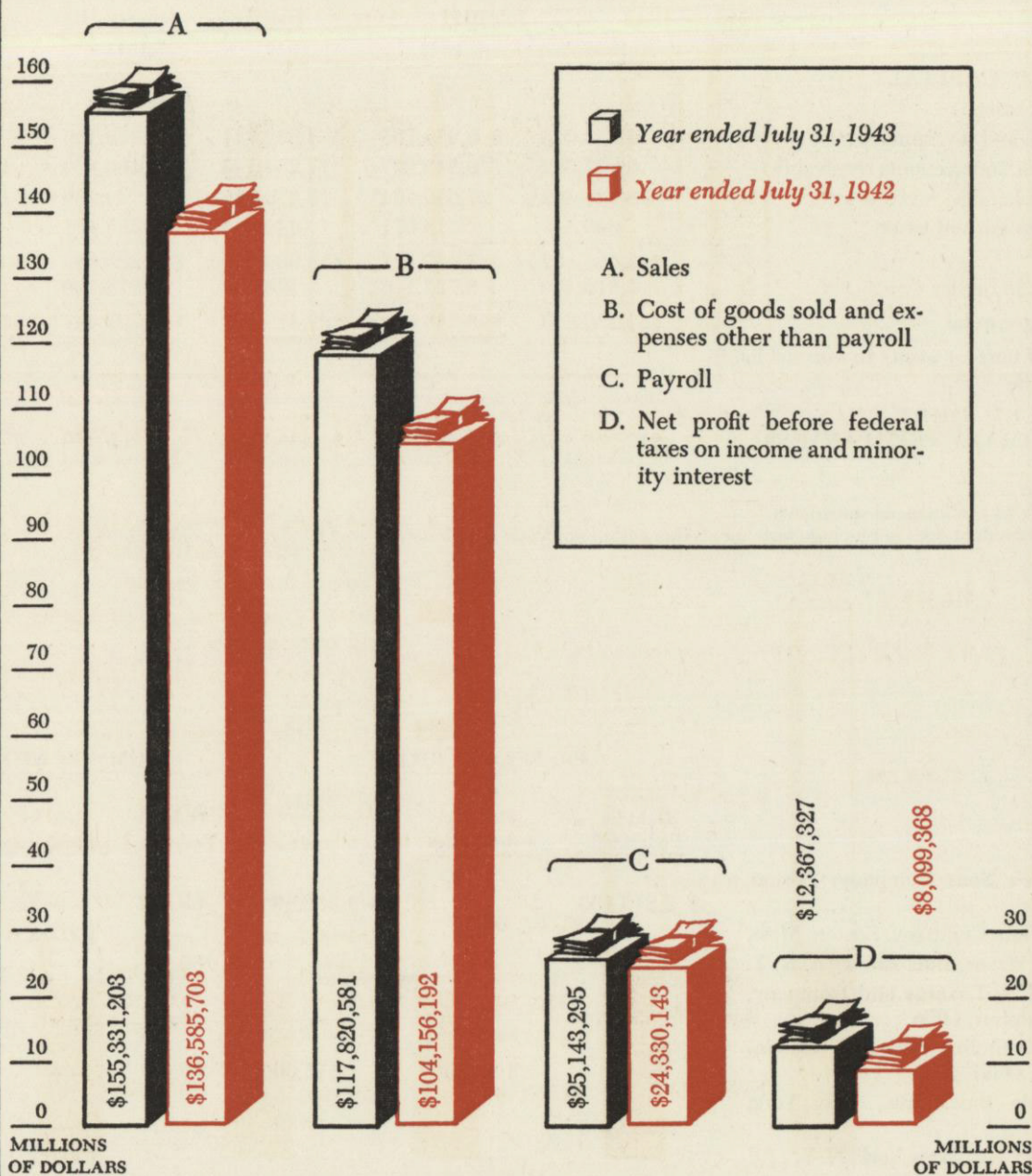
NOTES:

1. See note (1) to financial statements.
2. Long-term debt does not include instalments due within one year; such amounts are included in current liabilities.

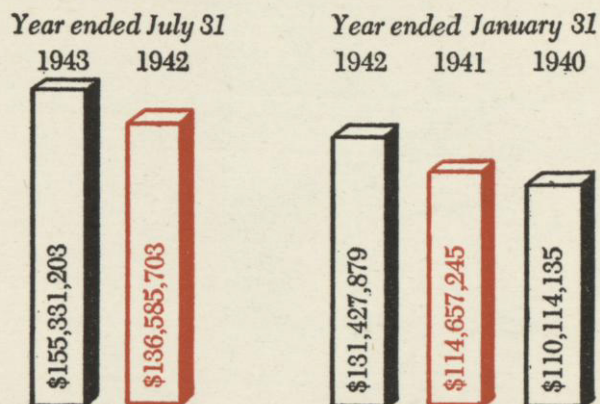
HOLDINGS OF SECURITIES OF SUBSIDIARY COMPANIES
JULY 31, 1943

	PREFERRED STOCK			COMMON STOCK		
	Held by Federated	Held by subsidiaries	Held by minority interests	Held by Federated	Held by subsidiaries	Held by minority interests
Wm. Filene's Sons Company, Boston, Mass.	\$ 2,813,100	\$ —	\$ 1,356,900	68.65%	— %	31.35%
R. H. White Company, Boston, Mass.	—	—	—	—	100.00	—
Abraham & Straus, Inc., Brooklyn, N. Y.	1,900,000	—	—	89.10	—	10.90
The F. and R. Lazarus and Company, Columbus, Ohio	2,553,100	—	—	98.94	—	1.06
The John Shillito Company, Cincin- nati, Ohio	—	1,865,600	515,000	99.28	—	.72
Bloomington Bros., Inc., New York, N. Y.	3,039,400	—	—	87.37	—	12.63
Labratest, Inc., New York, N. Y.	—	—	—	—	100.00	—
Federated Service, Inc., New York, N. Y.	—	—	—	—	100.00	—
Metropolitan Television, Inc., New York, N. Y.	—	—	—	—	100.00	—
	<u>\$10,305,600</u>	<u>\$ 1,865,600</u>	<u>\$ 1,871,900</u>			

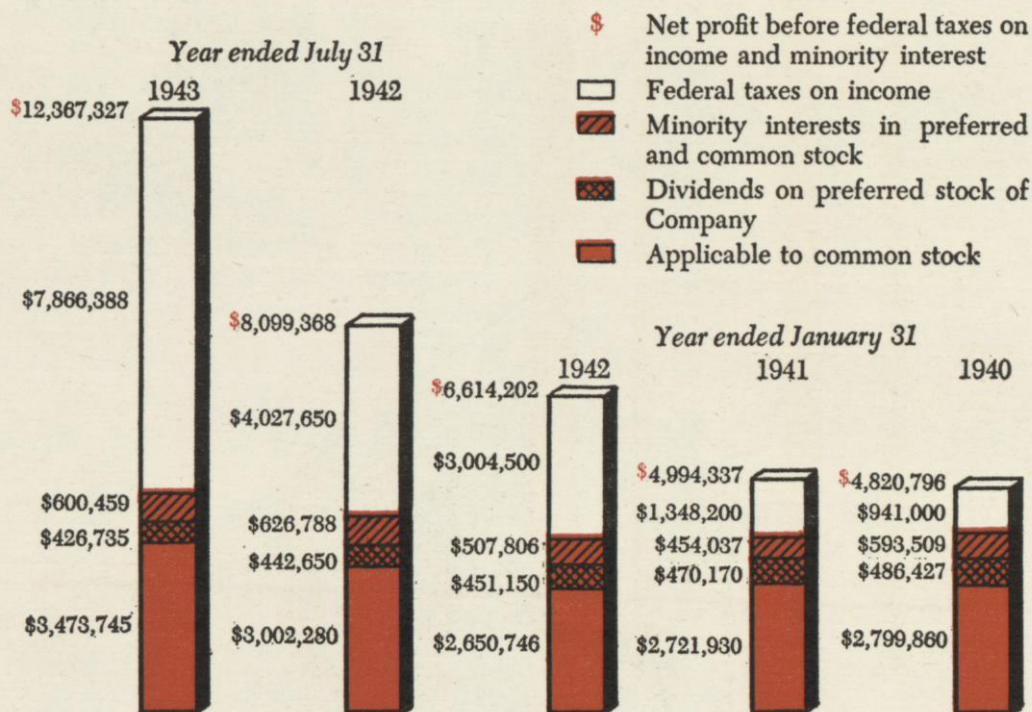
Net Profit Before Federal Taxes on Income



Total Volume of Business



Disposition of Net Profit Before Federal Taxes on Income





R.H. WHITE'S

CLOTHING

COLLEGIENNE

FILENE'S

CANTEN



SHILLITO'S

ABRAHAM & STRAUS

LAZARUS

1847
1848
1849